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HRI Food Service Sector

HRI Sector Update

2005

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Report Highlights:

Three consecutive years of positive economic growth, strong tourism growth and a date to begin negotiations to join the EU are positive developments for the HRI sector. Opportunities for imported food products, however, remain constrained by high tariffs, local competition and non-transparent import regulations.

Includes PSD Changes: No
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EXECUTIVE SUMMARY

The Turkish economy is demonstrating a remarkable recovery from the crisis of 2001. For the past three years, Turkey has achieved economic growth rates of over five percent while inflation rates have dropped considerably. On December 17, 2004 Turkey was given a date to begin negotiations to join the European Union. Foreign Direct Investment, already recovering from recent lows, is expected to increase on this news. Despite lingering unemployment of approximately ten percent, many observers are quite optimistic about Turkey's economic future. These trends, while driving change and growth in Turkey's HRI sector, have yet to create significant import opportunities for foods and beverages.

Major changes in the lifestyles, incomes and consumption patterns of Turks in the last decade, in spite of sporadic down turns in the economy, means they are increasingly prone to eat meals and socialize over food outside of the home. A new and faster pace of life has also led people to find quicker meal solutions for their shortened lunch hours. An increasing number of fast food chains and restaurants in newly established shopping centers and hypermarket complexes are growing evidence of newly emerging demand.

This has led to rapid development of two niche sectors; fast food and institutional food service. In addition to the overlying economic growth, four factors in particular have helped to drive this development:

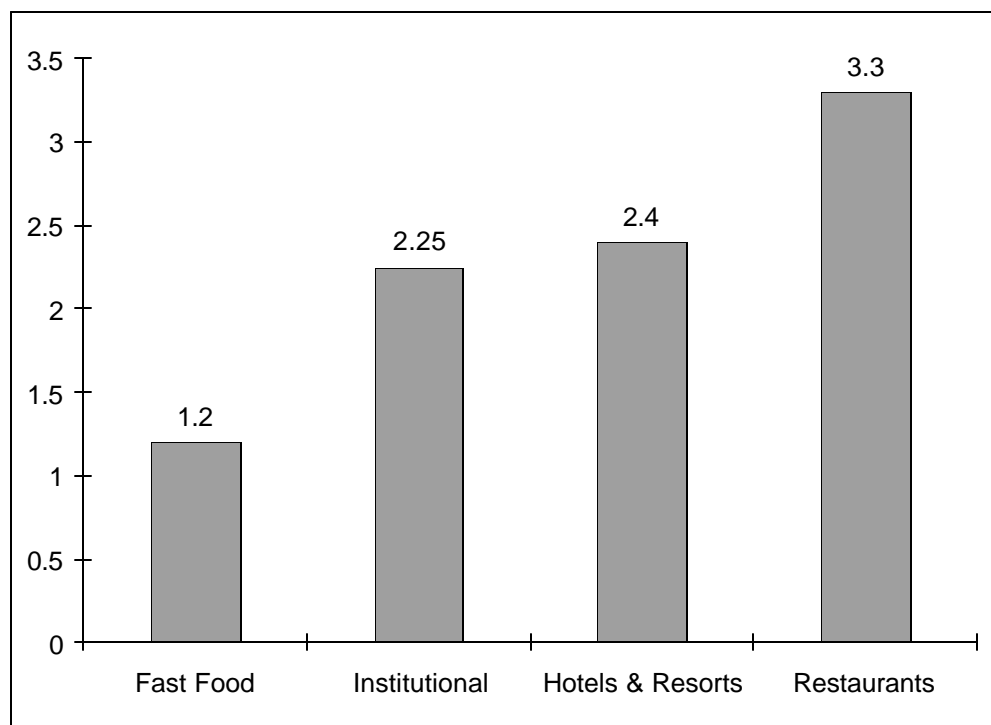
Increased income levels- Per capita income in Turkey has increased significantly during the last two years to reach about US \$4,000. According to purchasing power parity, however, per capita income is actually much higher - approximately US \$7,200. Turkey remains among the 20 largest economies of the world.

Urbanization and smaller household size- The share of the urban population increased from 44 to 65 percent and there was a sharp decrease in household size from 5.5 to 4.5 individuals per household between 1978 and 2000. The decrease in household size and increase in urbanization stimulate an environment in which expenditure in the HRI sector will increase.

Growing number of working women- The share of working women has increased from 15 to 28 percent of the workforce during the last two decades. This has also led to an increase in recreational and social dining.

Growth in tourism- Turkey has a strong and rapidly growing tourism industry. In 2004, an estimated 17 million foreign tourists (mostly European) visited Turkey generating more than US \$12.5 billion in revenue. The sector is expected to reach US \$20 to US \$25 billion in annual revenue within five years. Continued growth in the tourism sector has caused the number of foreign cuisine restaurants, both inside and outside hotels to increase.

Food service expenditures are estimated to have reached US \$127 per head in 2004. While this figure appears relatively low, it is much higher in urban areas. This figure includes all outside-the-home food and beverage consumption, but excludes alcohol. 2004 total food service revenue is estimated to be about US \$9.1 billion.

Food Service Revenues by Sub-sector 2004 (US\$ Billion)

The major trend in HRI food service is that the growth is shifting away from the traditional type of restaurants towards catered meals and fast food. The institutional catering sector has shown rapid growth in recent years and reached US\$ 2.25 billion in 2004 from 500 million in 1998. The fast food sector also experienced high growth in 2004.

Though there is promising growth in the HRI sector as a whole, opportunities for US food imports in large quantities remain limited, since it is possible to supply most food ingredients through domestic production and import costs are exaggerated by high duties and complicated procedures. For example, meat imports are banned to protect local producers. Import and consumption taxes on wine are over 200 percent.

As a result, imported food and food ingredient consumption remains low – about 10 percent for hotels and restaurants that feature foreign cuisine, and only 3 percent in local HRI food service. Imported items include rice, corn, pulses, chickpeas, vegetable oil (corn oil, soy oil), beans and other items used for catering such as specialty imported cheeses, hams, sauces, pastries, tropical fruits, seafood and alcoholic beverages.

The following is a summary of the advantages and challenges facing US food products in Turkey:

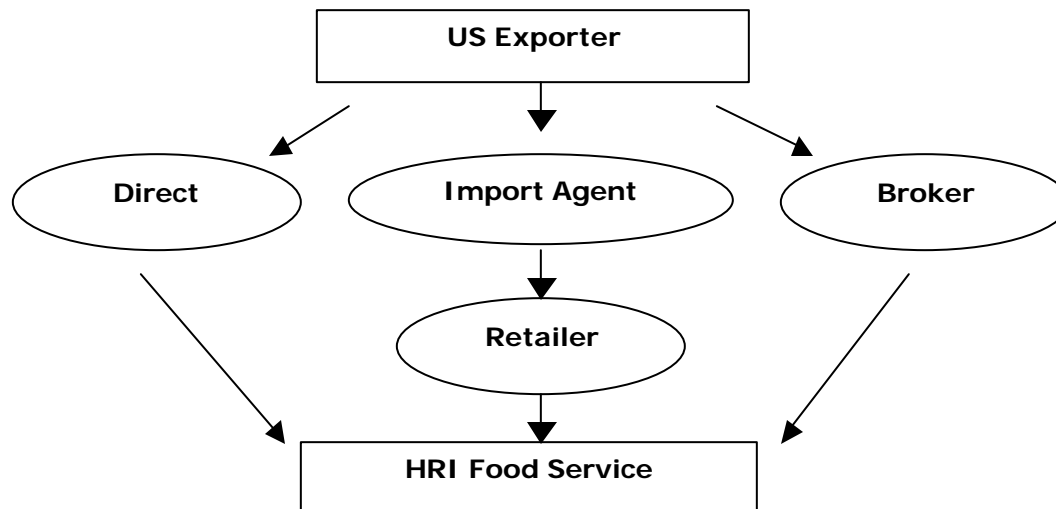
Advantages	Challenges
The number of western fast food outlets is continuing to increase.	Customs Union with the EU created a privileged position for EU country imports to Turkey.
Some US products are more competitively priced than local products.	Transportation costs are less for products from neighboring countries.
Branded foreign products do well in the Turkish market due to changing consumption patterns and western influence.	Some high import tariff rates exist. (Between 6% to 140% on processed food products and 12% to 240% on agricultural commodity products).
The young and urban segments of Turkish society are receptive to new products & western tastes.	There is a well-developed local food-processing sector providing most needed items.
The number of foreign cuisine restaurants (Asian, tex-mex etc) and international hotel chains are increasing.	European (French & Italian) and Far East cuisine are still dominant in restaurants and hotels. High tariffs prevent the import of many specialty ingredients.

MARKET STRUCTURE AND SUB-SECTOR PROFILES

A. Distribution Channels and New-to-Market Exporter Information

The distribution system in Turkey is shifting from the wholesaler/dealership model to large-scale networks backed by large distribution companies. There are also a large number of food manufacturers with their own distribution companies.

The following chart illustrates how the distribution network operates for HRI food service purchasers. The most common pattern is export to import agent, import agent to retailer.



Since import procedures are complex and volume low in this sector, very few companies handle the direct importation of HRI food service products. Most domestic distribution companies, with the exception of some of the large concerns, do not deal with imports. Imported food products are generally handled by specialist import distribution companies. The best approach for new-to-market exporters is to first contact importers and distributors by getting in touch with specialized institutions such as TUGIDER (Association of Food Importers) and DEIK (Foreign Economic Relations Board) who are involved in trade servicing. TUGIDER has 115 members, which covers the great majority of food importing companies in Turkey. This organization can be contacted at phone number (+90-212) 347 2560, fax number (+90-212) 347 2570 or at www.tugider.org.tr. DEIK assists Turkish businesses that are interested in moving into international commerce. DEIK can be contact at phone number (+90-212) 339 5000, fax (+90-212) 270 3092, or at www.deik.org.tr

B. Sub-sector Profiles

Hotels and Resorts

The hotel sector has a 26 percent market share of total food service. About one-fourth of the sector revenues are estimated to come from food & beverages, with 73 and 27 percent shares respectively. There were 7,515 qualified hotels in Turkey by the end of 2003 of which 476 were four and five star hotels, accounting for 38 percent of the total number of beds. Turkey has ambitious plans to increase the number of luxury hotels and resorts by about 15 to 20 percent per year during the next five years.

Approximately 17 million tourists visited Turkey in 2004. The number of tourists is expected to reach 30 million by 2010. During the same period annual income from tourism is expected to grow from US\$ 12 billion to US\$ 25 billion. Paralleling the growth in the tourism sector hotel and resorts food service will increase by 15 to 20 percent per year for the same period. Many resorts offer all-inclusive packages and buffet style dining. Imported foods rarely find their way onto these buffets due to prohibitive costs. It remains to be seen if domestic production in terms of both quantity and quality can satisfy this growth in demand.

Four and five star hotels and holiday resorts with foreign cuisine restaurants, catering not only to foreign but also domestic tourists, business meetings and conferences, form the major target group for imported food & beverage items. Hotels contact importers and distributors for their imported food & beverages needs. It is rare for hotels and restaurants to purchase imported items from cash & carry outlets or hypermarkets since business work on cash payment and do not offer delivery service. Luxury hotels have expressed an interest in importing high-value food items, but high tariffs and complicated procedures make many imports cost prohibitive.

Restaurants

According to official sources, the total number of restaurants in Turkey as of 2002 was about 150,000. Restaurants comprise the leading market segment in the food service sector, accounting in 2004 for 36 percent of total food service sales – 85 percent in food and 15 percent in beverages. It is a large category covering all kinds of outlets from traditional kebab & pide (similar to pizza) houses to luxury restaurants offering a wide variety of international menus.

Traditional restaurants' use of imported food & beverages is negligibly small, as the high import tariffs are a major deterrent. In addition, these restaurants specialize in traditional cuisine and all of the food inputs are available locally. An average 10 percent growth rate is expected in the restaurant food service for the next five years.

Luxury restaurants comprise the main market for imported food & beverages, but only 5 to 10 percent of the total restaurant market. Along with a great many restaurants specializing in Turkish cuisine, there are a considerable number that specialize in foreign food. There are now more than 300 foreign cuisine restaurants in Turkey. Italian, French, Far Eastern and Mexican cuisines are particularly popular.

Foreign cuisine restaurants procure their imported items either through importers or wholesalers. In the case of urgent or specialty needs, hypermarkets are used. Few international chains import directly. The main import items are wine, beer, fish products, specialty cheeses, sauces and pastries, and staple items like rice. Many restaurant owners have expressed interest in imported meat products, if the government lifts its current ban on such items. Food purchasing managers complain about cumbersome import procedures preventing them from importing specialized ingredients. Restaurant chains in general have not become popular yet in Turkey – most are single entity businesses. An exception to this is fast food chains, discussed next.

List of the major foreign cuisine restaurants

Foreign Cuisine Restaurant Profiles		
Restaurant Name	Location	Type of Cuisine
Ivy's Californian Brasserie	Ankara	American
TGI Friday's	Istanbul, Ankara	American & Mexican
Panchos	Bodrum / Mugla	Argentine
Atlas	Bodrum / Mugla	Canadian
Dragon	Hilton Hotel, Istanbul	Chinese
Dynasty	Istanbul	Chinese
Great Hong Kong	Istanbul	Chinese
Royal China	Polat Renaissance Hotel, Istanbul	Chinese
Ku Kong	Swissotel, Istanbul	Chinese
Citronelle	Ceylan Intercontinental Hotel, Istanbul	French
Le Cigare	Istanbul	French
La Corne D'or	Swissotel, Istanbul	French
Panorama	The Marmara Hotel, Istanbul	French
Turkuaz	Dedeman Hotel, Istanbul	French & Turkish
Divan	Divan Hotel, Istanbul	French & Turkish
Tandoori	Istanbul	Indian
La Select	Istanbul	Italian
Bellini	Ciragan Palace Hotel, Istanbul	Italian
Royal Garden	Falez Hotel, Antalya	Italian
Spasso	Hyatt Regency Hotel, Istanbul	Italian
Bice	Istanbul	Italian
Paper Moon	Istanbul	Italian
Mezza Luna	Istanbul, Ankara	Italian
Santini	Sheraton Hotel, Ankara	Italian
Mikado	Ankara	Japanese
Takarabune Japanese	Hyatt Regency Hotel, Istanbul	Japanese
Miyako	Swissotel, Istanbul	Japanese
El Torito	Istanbul	Mexican
Picante	Bodrum / Mugla	Mexican
Meksikana	Istanbul	Mexican
Machka	Istanbul	Russian

Fast Food Restaurants

Fast food chains are a relatively new concept in Turkey, with only a 20-year history. With the entrance of foreign chains like McDonald's and Burger King, Turkey's fast food market reached about \$1.2 billion in 2004. The industry grew about 25 percent this year following a major retraction in 2001 and 2002. The sector is expected to continue to grow in 2005 but at a slower pace. The fast food sector has a good prospect for development due to Turkey's relatively young population that is open to new tastes. Fifty percent of Turkey's population of 72 million is younger than the age of 25.

Currently there are about 20 modern fast food chains with 650 outlets. The great majority (about 75 percent) of them are located in big cities like Istanbul, Ankara, and Izmir.

Top Fast Food Restaurant Company Profiles					
Company / Restaurant Name	Sales CY 2001 \$ Million	Current Number of Restaurants (2004)	Future Expansion plans	Nationality	Purchasing Agent
McDonald's	100 (2000)	80	120 by 2007	US	Direct
Burger King	50 (2003)	111	500 by 2010	UK	Direct
Mudurnu Fried Chick.	20	33	75 by 2007	Turkish	Wholesaler
Pizza Hut	6	22	45 by 2007	US	Broker
Little Ceasar's	3	10	50 by 2007	US	Broker
KFC	10	19	40 by 2007	US	Broker
Pizza Pizza	5	62	100 by 2006	Turkish	Wholesaler
Arby's	8	7	10 by 2006	US	Broker
Dominos Pizza	10 (2004)	35	45 by 2006	US	Broker
Dunkin' Donuts	NA	24	40 by 2007	US	Wholesaler
Starbucks	NA	17	20 by 2006	US	Direct, Wholesaler

Though Turkey's fast food consumption is climbing fast, it lags far behind European levels. In 2004 per capita fast food consumption is estimated to be about US \$16 compared to US \$40 in France and US \$160 in the UK. Fast food consumption is expected to reach US\$ 18.5 per head by the end of by 2005. An average meal price is about US \$ 3.00-3.50 for a sandwich, French fries and soft drink. Among the fast food chains, pizza chains have enlarged faster during the last five years due to local availability of raw materials needed and increased home delivery service.

As seen above, US fast food franchises are dominant in Turkey, estimated to have about 50 percent of the domestic market. Turkish chains have about one third of the market. European chains, namely Burger King, hold the remainder. Traditional Turkish restaurant that are specializing in fast food service continue to emerge. These restaurants serve traditional chicken, beef and lamb kebabs and other Turkish dishes, but style of service is becoming more western i.e., fast. Companies use local products due to difficulties in importing. Burger King primarily sources food items locally, only importing paper products directly from the UK. Mc Donald's not only prefers to work with local food manufacturers for some items like Pinar for (condiment products), Tat (sauces and ketchup), McCormick (condiments), and Bolpat (frozen potatoes) it also produces its own beef to insure the quality and price competitiveness.

Institutional Food Service

In the 1980s, institutional food service providers began emerging in Turkey to provide food service to factories, schools, hospitals private companies and public sector organizations.

The institutional food service developed rapidly, sometimes with the help of foreign joint venture investments, to become a US\$ 2.25 billion business in 2004 (accounting for 25 percent of the overall HRI sector). The size of the institutional food service market will continue to enlarge as the military has started contracting out an increasing number of catering services at its premises. There are about 5,000 institutional food service enterprises in Turkey of which 2,700 are located in Istanbul. The sector is mainly composed of small-to medium sized private enterprises, with mostly local customers.

Company Name	Sales CY 2001 \$ Million	Portion Capacity Per day	Nationality	Purchasing Agent
USAS	40	40,000	Turkish-Swiss	Manufacturer, Distributors
Sofra(Eurest)	75 (2003)	165,000	UK-French	Manufacturer, Distr.
Sodexho	35 (2003)	100,000	French	Manufacturer, Distr.
Sardunya	45	100,000	Turkish	Manufacturer, Distr.
Mis-Keyveni	NA	40,000	Turkish	Manufacturer, Distr.
Seda	NA	25,000	Turkish	Manufacturer, Wholesaler
Emin	5	25,000	Turkish	Wholesaler
Doruk	5	80,000	Turkish	Manufacturer, Wholesaler
Pamuk	20	50,000	Turkish	Manufacturer, Wholesaler
Savas	12	30,000	Turkish	Wholesaler

One of the leading companies, Usas, specializes in providing airline-catering service to sixty airlines and operates terminal restaurants in Turkey's nine largest airports.

Currently there are 6 million people taking advantage of institutional food service in Turkey of which 2.5 million, or about 40 percent of the overall number are in Istanbul. As in the case of the retail sector with the larger super- and hyper-markets, the institutional food service has spread from Istanbul to other industrialized cities such as Ankara, Izmir, Adana, Bursa and Eskisehir. The main food inputs of the sector are meat, grains, and fruits and vegetables. Use of imported food items is mostly limited to bulk commodity agricultural products, such as rice, pulses and vegetables oils. There is less demand for catered food service from public sector organizations - with the exception of the armed forces - than from companies in the private sector. Many public sector organizations provide cafeteria services on their premises or offer meal vouchers good at nearby restaurants.

COMPETITION

Local products have dominance in the HRI market due to customer preferences for familiar foods and high duties and other restrictions on imported products. Higher-value imported products are mainly branded products (sprints, dairy products, sauces) and particular products that are either not available in Turkey or that have a higher cost of domestic production (sea food, exotic and tropical fruits, spices, etc.).

The majority of Turkey's imports in the food service sector are from European countries, due to proximity, the Customs Union with the EU (which provides for quota-free access and lower duties), and the dominant position of European (French, Italian) cuisines among foreign cuisines in Turkey. Other leading suppliers are Brazil for fruit juice, Egypt for rice and Ecuador for bananas.

The United States continues to be one of the leading supplier countries for the Turkish the food service sector, selling mainly vegetable oil (corn), rice, almonds and processed fruits and vegetables.

The table below shows major suppliers for some of the leading food imports to Turkey.

Product	Import Market (CY 2004) US\$ Million	Supplier Countries
Juices	8.9	Brazil, Holland
Cacao	134	Ghana, Ivory Coast, Cameroon
Chocolate	36.1	Italy, Germany, Holland
Coffee	18.3	Brazil, Germany
Banana	43.3	Ecuador, Costa Rica
Corn Oil	67.4	USA, Brazil, Bulgaria, Argentina
Sun Oil	50.5	Ukraine, Romania, Russia, Bulgaria
Rice	54.5	Egypt, USA, China, Italy
Milk and Crème Concentrate	25.2	France, Germany, Ukraine, Switzerland
Cheese	14.4	N. Cyprus, Poland, Holland
Butter	10.2	Sweden, Germany, Holland
Sauces	11.0	Macedonia, Germany, France, England
Soy oil	47.6	Spain, Portugal, Greece, Italy
Pulses	15	Canada, Kyrgyzstan, Iraq
Almond	5.0	USA, Iran
Breakfast cereals	19	Spain, Germany, Italy, France
Baby formulas	27	Germany, France, Spain
Jams	2.4	Germany, Czech Republic
Biscuits	13.5	Belgium, Italy, Holland
Pasta	1.5	Italy, Switzerland, Korea
Sea food	42.3	Norway, Spain, Mauritania, Ghana

BEST PRODUCTS PROSPECTS**Products now present in the market:**

Wine: Recent changes in local wine import and distribution regulations allow importers to import, distribute and sell wine at retail markets. Popularity of wine as an alcoholic beverage has increased in recent years. Local consumption has doubled during the last four years and Turkish consumers are willing to try new varieties. See TU4004 for an update on the Turkish wine market.

Seafood: Turkey is a promising market for various seafood products. In addition to the local fresh fish, frozen, preserved and ready to eat seafood products are welcomed by Turkish consumers. Turkey and the United States have recently agreed on a seafood health certificate that should facilitate market access.

Dairy products: Specialty cheeses and butter have good market potential for US suppliers. Currently EU countries dominate in the market.

Breakfast cereals: Consumption of breakfast cereals is increasing not only in HRI sector but also in retail market as well. Chocolate cereals, corn flakes, bran fiber flakes with raisins and mixed fruit and chocolate cereals are becoming popular among the Turkish consumers.

Sauces and syrups: Various brands of sauces for salads, meat and international cuisines are popular in Turkey and form an important part of the HRI sector. Currently sauces are imported from Germany, UK, France, Asian countries and the United States.

Products not present in the market:

Beer: Recent changes in beer import regulations, which eased terms for importation and distribution of imported beer, represent a good opportunity for US boutique beers. Beer consumption in Turkey is increasing with a higher rate compared to EU due to a relatively large young population and large number of foreign tourist (17 million in 2004). Presently almost all the beer consumed in the country is locally produced and Turkish consumers are open to new products and tastes.

Products unsuccessful in the market:

Adopting products popular in the west is a large part of the modern Turkish life. Internationally known brand names are very useful for this. Exporters should be particularly sensitive to brand positioning and be ready to invest in necessary research and marketing support to assist their importing partners in a successful entry.

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